

VII. GENERAL GOVERNMENT FINANCE

7.1 General

During 2006/07 fiscal deficit of the general government, (excluding grants) stood at 8.1 percent of GDP slightly higher than 7.4 percent in 2005/06. The ratio of expenditure to GDP declined from 22.3 percent in the preceding fiscal year to 20.8 percent in 2006/07 and that of revenue to GDP from 14.8 percent to 12.8 percent during the same period. The primary deficit also narrowed to 3.0 percent of GDP from 5.5 percent last year.

Total outstanding public sector external debt as at the end of fiscal year 2006/07 was USD 2,300.3 million, a decrease of

USD 3,728.8 million against that recorded at the end of previous fiscal year. As a result, the ratio of external

debt to GDP which was 39.8 percent at the end of preceding fiscal year drastically declined to 11.84 percent at the end of 2006/07.

On the other hand, the stock of domestic debt reached Birr 30,064 million, increasing by 13 percent from what was Birr 26,489 million at the end of the preceding fiscal year. Since the rate of growth of nominal GDP (29.8 percent) was quite higher than that of domestic debt, there was decrease in the ratio of domestic debt to GDP from 20.1 percent in the preceding year to 17.6 percent in the 2006/07.

Table 7.1: Measuring Fiscal Sustainability (In %)

Fiscal Year	PD/GDP	IP/RR	Ddebt/GDP	R(Debt)	R(GDP)	Exp/GDP	Rev/GDP	R(OR)
1996/97	4.1	11.7	29.8	3.4		24.2	19	8.1
1997/98	-1.5	9.9	24.7	7.9	-3.9	20.7	15.4	2.8
1998/99	-4.0	10.1	15.4	11.9	5.9	24.7	16.0	8.3
1999/00	-6.4	11.8	25.4	61.1	13.4	26.1	14.4	8.3
2000/01	-2.2	10.6	21.4	-7.1	2.1	23.4	15.1	7.1
2001/02	-10.7	9.7	23.2	8.2	-2.2	32.6	16.5	2.3
2002/03	-5.2	10.9	25.6	10.7	10.3	27.9	15.2	7.1
2003/04	-1.8	7.8	26.6	22.6	18.0	23.7	16.1	24.8
2004/05	-3.9	6.5	22.2	2.3	22.9	19.3	14.6	12
2005/06	-5.5	5.4	20.1	12.2	23.7	22.3	14.8	25.1
2006/07	-3.0	5.5	17.6	13.5	29.8	20.8	12.8	11.6

Source: Staff compilations

Definitions: PD = Primary Deficit

IP/RR= Share of interest payments in Recurrent revenue

DDebt/GDP=Ratio of Domestic Debt to GDP

R (Debt) = Growth rate of Domestic Debt

R (GDP) = Growth rate of GDP at current market price

Exp/GDP=Ratio of General Government Expenditure to GDP

Rev/GDP= Ratio of General Government Revenue to GDP

R (OR) = Growth rate of ordinary Revenue

Note: starting from 1997/98 the figure was based upon revised GDP data

7.2 Revenue and Grants

General government revenue, including grants, increased by about 26.3 percent on annual basis to Birr 29.3 billion. In terms of GDP, general government revenue was (12.8 percent lower) than the 14.8 percent ratio in 2005/06.

About 79.6 percent of the total domestic revenue was generated from tax sources which surged by 22 percent in the review year to Birr 17.3 billion. The observed increase in tax revenue was attributed to the improved collection of

taxes both from direct (15.8 percent) and indirect (25.6 percent) sources. The respective contribution of direct and indirect taxes to tax revenue has reached 23.7 percent and 55.9 percent in the 2006/07, the remaining being from non-tax sources.

Revenue from direct taxes went up owing to improved revenue from personal income taxes and business profit. Meanwhile agriculture which is the main stay of the economy, contributed modest revenue in the form

of rusal landuse fee and agricultural income. At the same time, 67.2 percent of the indirect tax revenue was derived from import taxes

A total of Birr 4.4 billion was collected as non-tax revenue during 2006/07 about 17.2 percent lower than the amount collected in the previous fiscal year. Due to slow down in collection from government investment income, charges

and fees, sales of goods & services and reimbursement & property sales .

Meanwhile external grants was doubled and reached 7.5 billion, 103 percent higher than Birr 3.7 billion recorded in the preceding fiscal year.

All in all, total revenue collection, including grants, in the 2006/07 was about 85 percent of the total budget.

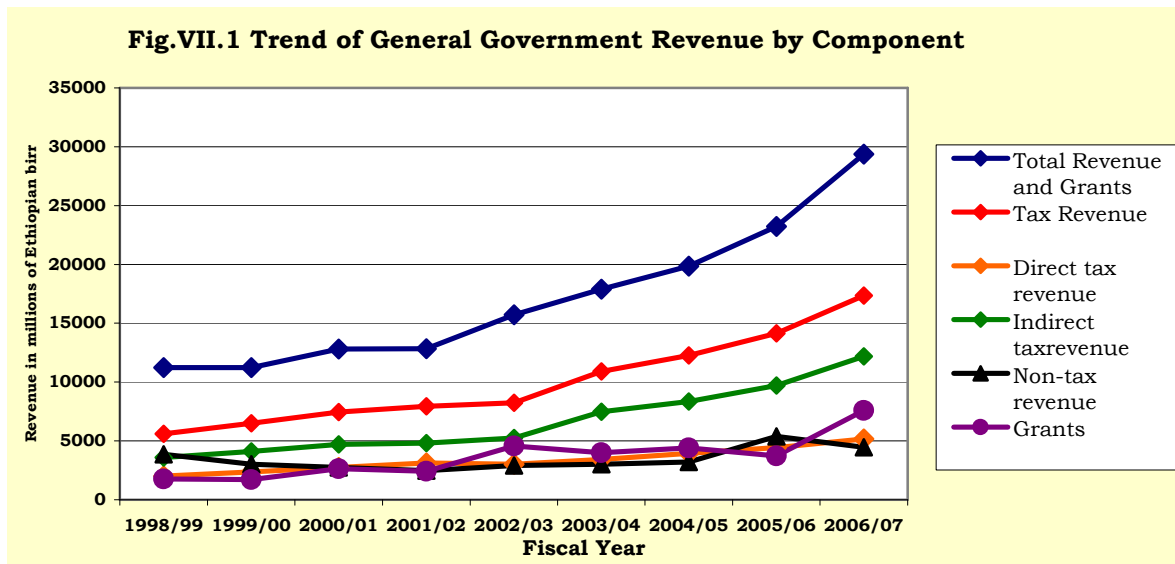


Table 7.2: Summary of General Government Revenue by Component

(In Millions of Birr)

Particulars	2005/06	2006/07		Percentage Change	Performance Rate
	[A]	[B]	[C]		
	Pre. Act	Revised Budget	Pre. Act	[C/A]	[C/B]
Total Revenue and Grants	23261	34525	29381	26.31	85.10
Total Revenue 1/	19529	25684	21797	11.61	84.87
Tax Revenue	14159	18573	17354	22.57	93.44
1. Direct Tax Revenue	4461	5962	5168	15.85	86.68
1.1 <i>Income and Profit Taxes</i>	3819	4660	4868	27.47	104.46
<i>Personal</i>	1414	1508	1828	29.28	121.22
<i>Business</i>	1741	2222	2305	32.40	103.74
<i>Others 2/</i>	665	930	735	10.53	79.03
1.2 <i>Rural Land Use Fee</i>	124	133	130	4.84	97.74
1.3 <i>Urban Land Use Fee</i>	517	1169	170	-67.12	14.54
2. Indirect Taxes	9698	12612	12186	25.65	96.62
2.1 <i>Domestic Taxes</i>	3111	4375	3997	28.48	91.36
2.2 <i>Foreign Trade Taxes</i>	6587	8237	8189	24.32	99.42
<i>Import</i>	6587	8237	8189	24.32	99.42
<i>Export</i>	0	0	0		
3. Non-Tax Revenue	5371	7111	4444	-17.26	62.49
3.1 <i>Charges and Fees</i>	379	436	342	-9.76	78.44
3.2 <i>Govt. Invt. Income 3/</i>	3136	3475	2682	-14.48	77.18
3.3 <i>Reimbursement and Property Sales</i>	310	1382	168	-45.81	12.16
3.4 <i>Sales of Goods & Services</i>	433	669	250	-42.26	37.37
3.5 <i>Others 4/</i>	1113	1150	1001	-10.06	87.04
4. Grants	3732	8841	7583	103.19	85.77

Source: Ministry of Finance and Economic Development

1/ It does not include privatization proceeds

2/ Others include rental income tax, withholding income tax on imports, interest income tax, capital gains tax, agricultural income and other income

3/ Government investment income includes: residual surplus, capital charge, interest payments and state dividend.

4/ Other extraordinary, miscellaneous and pension contribution

7.3 Expenditure

A total of Birr 35.6 billion was spent on different government programs, this sum was 21.1 percent higher than the amount

in 2005/06 as both recurrent and capital expenditures increased.

Recurrent expenditure reached Birr 17.2 billion, showing 12 percent increase over

last fiscal year. Its share in total expenditure was 48.2 percent and its performance rate 89 percent of the annual budget.

Capital expenditure at Birr 18.4 billion depicted 31 percent increase vis-à-vis 2005/06. Its performance rate against the annual budget plan e was 81.5 percent.

On the other hand, expenditure on special programs continued to decline from Birr 50 million in the previous period to Birr 44 million in the review year presumably due to phasing out of social rehabilitation and reconstruction projects

Table 7.3: Summary of General Government Expenditure

(In Millions of Birr)

Particulars	2005/06	2006/07		Percentage Change	Performance Rate
	[A]	[B]	[C]	[C/A]	[C/B]
	Pre. Act	Revised Budget	Pre. Act		
Total Expenditure	29,325	41,836	35,607	21.42	85.11
1. Current Expenditure	15,234	9,269	17,166	12.68	89.09
<i>General Services</i>	6,522	6,563	7,073	8.45	107.77
<i>Economic Services</i>	2,009	2,419	2,201	9.56	90.99
<i>Social Services</i>	4,996	6,041	6,198	24.06	102.60
<i>Interest and Charges</i>	1,054	1,481	1,207	14.52	81.50
<i>External Assistance^{1/}</i>	586	826	411	-29.86	49.76
<i>Social Safety Net</i>	-	-	-		
<i>Others (miscellaneous)</i>	67	1,939	76	13.43	3.92
2. Capital Expenditure	4,042	2,567	18,398	31.02	81.53
Economic Development	0,426	3,761	11,367	9.03	82.61
Social Development	3,099	7,814	5,998	93.51	76.75
General Development	517	992	1,033	99.90	104.16
3. Special programs	50	-	44	-12.00	

Source: Ministry of Finance and Economic Development

Note: 1/ Includes mapping, science and technology, public buildings, etc

Fig. VII.2: Trends in General Government Expenditure by Component

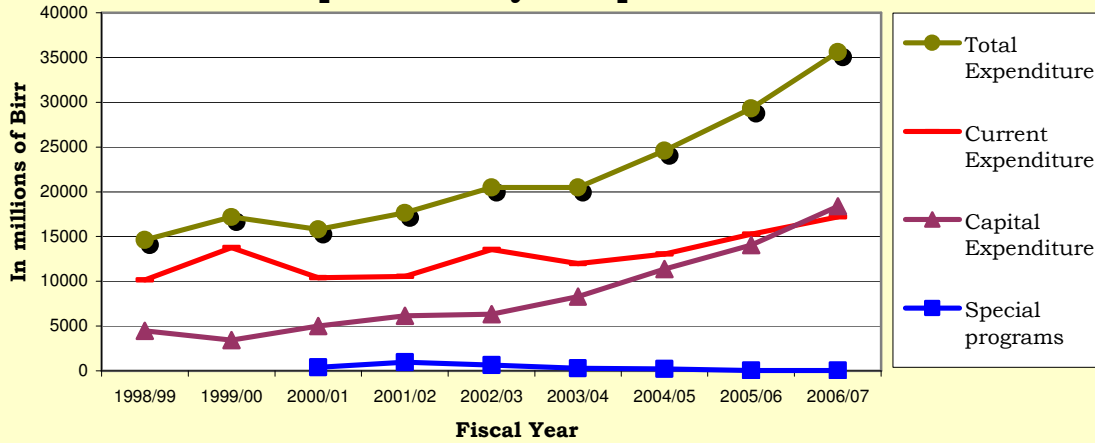
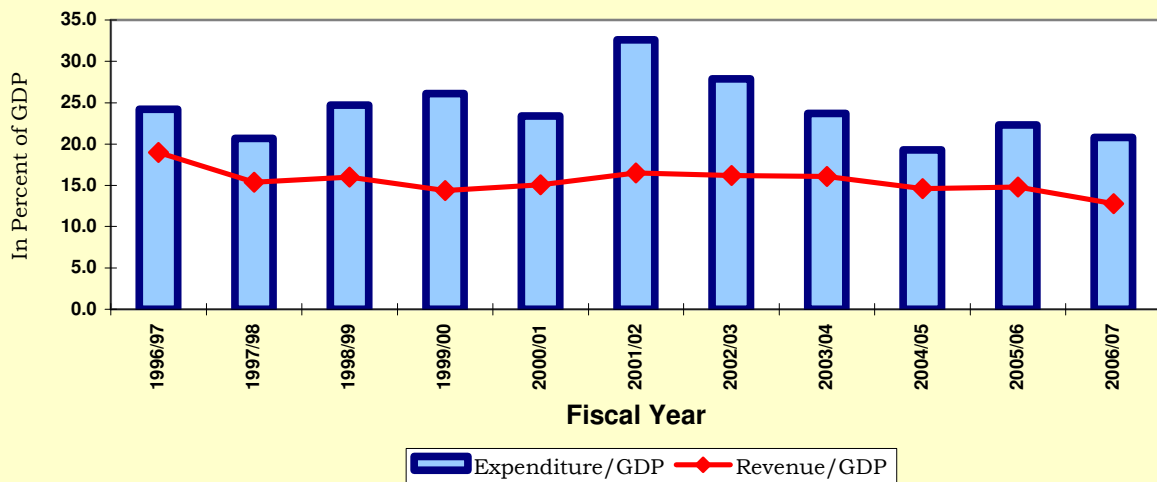


Fig. VII.3 Trends in General Government Expenditure and Revenue (% of GDP)



7.4 Deficit Financing

General government budgetary operations, including external grants, resulted in a deficit of Birr 6.23 billion in 2006/07. This was 2.7 percent higher than Birr 6.06 billion deficit recorded in

the preceding year. Net domestic borrowing financed the significant proportion of the deficit of which Birr 4.25 billion was from the domestic banking system.

Table 7.4 Summary of General Government Finance

(In Millions of Birr)

Particulars	2005/06	2006/07		Percentage Change	Performance Rate
	[A]	[B]	[C]	[C/A]	[C/B]
	Pre. Act	Revised Budget	Pre. Act		
Revenue and Grants	23261	34525	29381	26.31	85.10
Revenue	19529	25684	21797	11.61	84.87
Grants	3732	8841	7583	103.19	85.77
Total Expenditure	29324	41836	35607	21.43	85.11
Current Expenditure	15234	19269	17165	12.68	89.08
Capital Expenditure	14040	22567	18398	31.04	81.53
Special Programs	50	0	44	-12.00	
Overall Surplus/ Deficit					
(Including Grants)	-6063	-7311	-6226	2.69	85.16
(Excluding Grants)	-9795	-16152	-13810	40.99	85.50
Total Financing	6063	7311	6226	2.70	85.16
Net External Borrowings	1512	3316	1912	26.46	57.66
Gross Borrowing	1520	2454	1774	16.71	72.29
o/w Special Programs	459	0	290	-36.82	
Amortization Paid	934	960	919	-1.61	95.73
HIPC Relief	926	1822	1057	14.15	58.01
Net Domestic Borrowings	2735	3996	6247	128.41	156.33
Banking System	2876	3996	4259	48.09	106.58
Non-Banking Systems	-141	0	1988	-1509.93	
Privatization Receipts	0	0	0		
Others and Residuals	1815	0	-1932	-206.45	

Source: Ministry of Finance and Economic Development